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The Practicing CPA

MAY 1992

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THE MYTHS AND REALITIES OF FAMILY-OWNED BUSINESSES

Many professional service firms find that having a family-owned business as a client can be extremely challenging. Sometimes the professionals are asked to help resolve certain business issues and, in doing so, open the proverbial Pandora's box. In the blink of an eye, they are embroiled in controversies, some of which are so bitter they become front-page news. Sometimes, in fact, it is difficult for the professional to ascertain whether the client is the family or the business.

Retention of family business clients can also be problematic because the selection of a professional service provider, such as a CPA firm, often contains a generational factor. The CPA who has provided competent and loyal service over the years is retired (along with Mom and Dad) in favor of someone more compatible with the succeeding generation. This often occurs at the time when the family business has evolved to where it offers significantly more service opportunities to the CPA firm than just tax and audit work.

Almost certainly with such clients, the professional can be confronted with situations and issues that go beyond the expertise and training of a single professional discipline. For example, a CPA might identify a situation where psychological counseling is badly needed. But how can that intervention be realized without possibly jeopardizing the client relationship? What is the best way to tell a father that his pride and joy is an incompetent business manager? What are the chances of the CPA's escaping, client relationship unscathed, a feud between two siblings, or worse still, a full-blown family brouhaha?

An appropriate question at this point might be, Why would anyone be interested in providing services to a family-owned business? Who needs the aggravation? One answer might be found in estimates that family-owned businesses comprise 75 percent to 95 percent of all U.S. companies and one-third of the nation's 1,000 largest publicly traded

manufacturing firms, and that they generate approximately 40 percent to 60 percent of the country's gross national product.

More specifically, a recent Dun and Bradstreet database of 9.5 million U.S. companies reveals 56,734 firms with annual sales greater than \$25 million. Of these, 45,497 (80 percent) are privately owned and are primarily family businesses. Only when the level of annual sales reaches \$500 million does public ownership exceed private ownership. Even then, 47 percent of all firms listed in the database are privately owned. Before anyone begins developing a marketing strategy aimed at this audience, however, the complexities of issues involved need to be understood.

First, there are three major systems or constituencies that should be recognized:

- ☐ The family.
- ☐ The business.
- ☐ The individuals.

To better comprehend the intricacies of working with these interdependent systems, it helps to visualize three interconnecting circles and imagine that where the lines cross, the possibilities for conflict exist.

Each system has a different and often contradictory agenda. Lacking an understanding of the dynamics involved, a single-discipline professional will likely alienate one or another of the systems.

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Resolving such issues not only is time-consuming but risks further estrangement.

Sometimes an ad hoc professional relationship develops when, to take one example, a CPA introduces a psychologist to help resolve a certain problem. The professional orientation of the disciplines is so distinct, however, that the relationship may become counterproductive if the client is confused by conflicting advice. Then, instead of being encouraged to take corrective action, the client will become more deeply entrenched in the dilemma and remain unable to make decisions.

If any segment of this elaborate and complex system becomes dysfunctional, one of the most successful intervention techniques is to hold a family retreat using a facilitator who is professionally knowledgeable and experienced in identifying and resolving family business issues.

Much like the retreats for partners of CPA firms, the family business retreat should be conducted off-site (neutral territory) whenever possible. And to encourage and reaffirm family values and traditions, time should be scheduled for recreational activities.

Issues such as family mission statements, strategic planning, succession planning, estate planning, and creating a board of advisors are all best dealt with at a retreat and are matters in which the CPA can provide valuable assistance to the client. It is a good way for the CPA to keep in touch and gives the younger partners in the firm an opportunity to make contact with their peers in the family business.

For any remedial action to be successful, the most important element of the planning process is to have accurate and specific operational information available. While this may appear obvious, few family businesses have their operations defined, or have a work management system, or even a work measurement system. But without this information, the true potential of the business cannot be properly ascertained and efficiently exploited.

Developing an operational profile of a family-owned business is not easy. Every operational premise of the company must be questioned, ver-

ified, and validated. Every major element of "work" must be identified and then challenged as to its appropriateness. Basic operational philosophies need to be reviewed and studied regarding their applicability or possibly their obsolescence.

Following are some general observations of family-owned businesses from an operational perspective.

- ☐ Profit is not a major consideration.
- ☐ Financial information is an unreliable management tool.
- ☐ Commonly accepted management concepts are less effective.
- ☐ Emotion is a more powerful element than logic.
- ☐ The problems are rational and the solutions are emotional.

One particular aspect of consulting to family-owned businesses is especially intriguing: The issues can be extremely elastic when facts and perceptions become interchangeable. As previously mentioned, it is not unusual to find a dearth of hard or factual operational information. What one is more likely to encounter is varying interpretations of past events among the managers of the business—both family and nonfamily managers alike. And this phenomenon is not just confined to the business organization. It exists in the family unit, too.

And if the issues are elastic, successfully resolving any problems can be particularly difficult and frustrating because the professional is often trying to incorporate rational solutions into an emotional environment. In such situations, it may make sense for the CPA to develop collaborative relationships with other professional service providers who are skilled and experienced in dealing with the unique and complex issues encountered when working with a family-owned business client. ☒

—by **Craig Aronoff, Ph.D., Leslie Dashew Issacs, Howard Neiman, CPA, Don A. Schwerzler, and Philip Sidwell, Ph.D.,** *Family Business Institute, Inc., 340 Interstate North Parkway, Suite 140, Atlanta, Georgia 30339, tel. (404) 925-4085, FAX (404) 956-1541*

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Highlights of Recent Pronouncements

FASB Statement of Financial Accounting Standards

No. 109 (February 1992), *Accounting for Income Taxes*

- ☐ Supersedes and amends various pronouncements including, but not limited to:
 - 1) FASB Statement no. 96, *Accounting for Income Taxes*.
 - 2) FASB statement no. 108, *Accounting for Income Taxes—Deferral of the Effective Date of FASB Statement no. 96*.
- ☐ Establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years.
- ☐ Requires an asset and liability approach for financial accounting and reporting for income taxes.
- ☐ Establishes financial accounting and reporting standards for income taxes that are currently payable and for the tax consequences of:
 - 1) Revenues, expenses, gains, or losses that are included in taxable income of an earlier or later year than the year in which they are recognized in financial income.
 - 2) Other events that create differences between the tax bases of assets and liabilities and their amounts for financial reporting.
 - 3) Operating loss or tax credit carrybacks for refunds of taxes paid in prior years and carryforwards to reduce taxes payable in future years.
- ☐ Establishes procedures to:
 - 1) Measure deferred tax liabilities and assets using a tax rate convention.
 - 2) Assess whether a valuation allowance should be established for deferred tax assets.
- ☐ Requires deferred tax liabilities and assets be adjusted in the period of enactment for the effect of an enacted change in tax laws or rates.
- ☐ Effective for fiscal years beginning after December 15, 1992. Earlier application is encouraged.

No. 107 (December 1991), *Disclosures about Fair Value of Financial Instruments*

- ☐ Extends existing fair value disclosure practices for some instruments by requiring all entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value.

- ☐ Requires disclosure of descriptive information pertinent to estimating the value of a financial instrument if estimating fair value is not practicable.
- ☐ Effective for financial statements issued for fiscal years ending after December 15, 1992, for all entities except those with less than \$150 million in total assets in the current statement of financial position. For those entities, the effective date is for fiscal years ending after December 15, 1995.

GASB Statement of the Governmental Accounting Standards Board

No. 15 (October 1991), *Governmental College and University Accounting and Financial Reporting Models*

- ☐ Provides guidance on the accounting and financial reporting models to be used for governmental colleges and universities.
- ☐ Clarifies generally accepted accounting principles and provides interim guidance pending further research that ultimately may lead to the issuance of one or more pronouncements that establish a comprehensive accounting and financial reporting model for governmental colleges and universities.
- ☐ Applies to all governmental colleges and universities and to all state and local government reporting entities that include colleges and universities.
- ☐ Effective for financial statements for periods beginning after June 15, 1992. Early application is encouraged.

No. 14 (June 1991), *The Financial Reporting Entity*

- ☐ Establishes standards for defining and reporting on the financial reporting entity.
- ☐ Establishes standards for reporting participation in joint ventures.
- ☐ Applies to:
 - 1) All levels of state and local governments;
 - 2) Financial reporting by primary governments, governmental joint ventures, jointly governed organizations, and other stand-alone governments;
 - 3) Separately issued financial statements of governmental component units;
 - 4) Governmental and nongovernmental component units when they are included in a governmental reporting entity.
- ☐ Requires certain disclosures about the entity's relationships with organizations other than component units.
- ☐ Provides financial statement display require-

ments for joint ventures in which the participating government has an equity interest.

- ☐ Supersedes National Council on Governmental Accounting (NCGA) Statements 3, *Defining the Governmental Reporting Entity* and 7, *Financial Reporting for Component Units within the Governmental Reporting Entity*, and NCGA Interpretation 7, *Clarification as to the Application of the Criteria in NCGA Statement 3, "Defining the Governmental Reporting Entity."*
- ☐ Amends all disclosure requirements in the GASB Codification of Governmental Accounting and Financial Reporting Standards that relate to reporting by the "entity as a whole."
- ☐ Effective for financial statements for periods beginning after December 15, 1992. Earlier application is encouraged.

Statement on Auditing Standards

No. 69 (January 1992), *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report*

- ☐ Supersedes SAS No. 5, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report*
- ☐ Changes the authority of AICPA Statements of Position, Audit and Accounting Guides, and Practice Bulletins as well as FASB Emerging Issues Task Force Consensuses in the GAAP hierarchy.
- ☐ Establishes two separate but parallel hierarchies: one for state and local governmental entities and one for nongovernmental entities.
- ☐ Effective for audits of financial statements for periods ending after March 15, 1992.

No. 68 (December 1991), *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*

- ☐ Supersedes SAS no. 63, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*.
- ☐ Establishes standards for testing and reporting on compliance with laws and regulations in engagements under generally accepted auditing standards, *Government Auditing Standards*, the Single Audit Act of 1984, Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*, and OMB Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*.
- ☐ Provides guidance on applying the provisions

of SAS no. 53, *The Auditor's Responsibility to Detect and Report Errors and Irregularities*, and SAS no. 54, *Illegal Acts by Clients*, relative to detecting misstatements resulting from illegal acts related to laws and regulations.

- ☐ Provides guidance on reporting on compliance with laws and regulations and the internal control structure in audits conducted in accordance with *Government Auditing Standards*.
- ☐ Provides guidance on testing and reporting on compliance with certain laws and regulations applicable to:
 - 1) Federal financial assistance programs in audits conducted in accordance with the Single Audit Act of 1984 and OMB Circular A-128.
 - 2) Federal award programs in audits conducted in accordance with OMB Circular A-133.
- ☐ Provides guidance on establishing an understanding with management regarding the type of engagement when engaged to test and report on program-specific audits or compliance with state or local laws and regulations.
- ☐ Effective for audits of financial statements and of compliance with laws and regulations for fiscal periods ending after June 15, 1992. Early application is encouraged.

No. 67 (November 1991), *The Confirmation Process*

- ☐ Supersedes SAS no. 1, section 331, *Receivables and Inventories*, paragraphs 3 through 8, and the portion of paragraph 1 that addresses the confirmation of receivables. However, it does not supersede the portion of paragraph 1 that addresses the observation of inventories.
- ☐ Specifically addresses the confirmation of accounts receivable.
- ☐ Provides guidance about the confirmation process in audits performed in accordance with generally accepted auditing standards.
- ☐ Defines the confirmation process.
- ☐ Discusses the relationship of confirmation procedures to the auditor's assessment of audit risk.
- ☐ Describes certain factors that affect the reliability of confirmations.
- ☐ Provides guidance on:
 - 1) Performing alternative procedures when responses to confirmation requests are not received;
 - 2) Evaluating the results of confirmation procedures.
- ☐ Effective for audits of fiscal periods ending after June 15, 1992. Early application is permissible.

Your Voice in Washington

The 50-member staff of the AICPA Washington office would like to hear from you about legislative and regulatory issues important to practitioners in small and medium-size CPA firms. It is the local practitioner, after all, who ultimately has to cope with the effects of federal and state legislation and regulation. When alerted to your concerns about certain developments, the Washington office is always willing to fight for change.

A clear illustration of this occurred in 1984 when Congress imposed a \$25 penalty on return preparers who failed to inform taxpayers of the contemporaneous recordkeeping requirement. It was practitioners' quick responses in letting the AICPA Washington office know how burdensome the new law was that enabled the Institute to lead a successful drive to have the law repealed before it became effective.

The primary purpose of the AICPA Washington office is to represent the accounting profession before Congress and federal regulatory agencies, and to assist state societies in dealing with state legislative issues affecting the profession. To accomplish this mission, the office has established four divisions: tax, federal government, legislative affairs, and state legislation and legislative relations.

- ☐ *The tax division* develops positions on tax law and policy issues that are important to the profession, and then works with the legislative and executive branches of government to implement them.
- ☐ *The federal government division* represents the profession on all accounting and auditing related matters, except federal income taxes.
- ☐ *The legislative affairs division* interacts with and monitors Congress to represent and protect members' interests.
- ☐ *State legislation and legislative relations*, the fourth division, works closely with state societies on accounting legislation and other legislative issues to protect the interests of all practitioners and the general public. This division also serves as the communications link with CPAs who act as AICPA key person contacts for members of Congress. The key person program is the Institute's grass-roots lobbying program.

The AICPA Washington office exists to serve your needs. It is your voice in our nation's capital. If you have questions or concerns about a legislative issue, call the office, (202) 737-6600 or write to AICPA, 1455 Pennsylvania Avenue, N.W., Washington, D.C. 20004-1081. ☒

Change in Review Payment Procedures

Effective April 1, 1992, a new payment procedure will be used for reviews administered by the American Institute of CPAs. This will require firms to pay 50 percent of the estimated fees (based on the upper range of hours budgeted for the review) for committee-appointed review teams (CARTs) *before* the review begins. For example, if a review is anticipated to take between 13 and 27 hours to complete and the reviewer's hourly rate is \$85, the reviewed firm would be required to pay \$1,147 (27 hours × \$85 × 50 percent). This change affects

- ☐ Peer reviews and report (off-site) reviews conducted under the auspices of the private companies practice section.
- ☐ Peer reviews conducted under the auspices of the SEC practice section.
- ☐ Quality reviews (that is, on-site and off-site reviews) conducted under the auspices of the quality review program.

The engagement letter sent to firms will state the prepayment requirements, and an invoice for the amount due will be mailed separately by the AICPA general accounting department. When the review is completed, the firm will receive another invoice detailing the total cost (that is, per diem charges, out-of-pocket expenses, and AICPA administrative fees), the amount prepaid, and the balance due. A late charge of 1.5 percent per month will be assessed on all balances not paid within 90 days. The AICPA has initiated this prepayment policy to protect members from undue losses. ☒

Partner Potential

Professional
Ambitious
Responsible
Team Player
New Business Developer
Energetic
Real Thinker

People Developer
Opportunity Seeker
Technician
Executive Presence
New Ideas
Time Management Skills
Interpersonal Skills
Attitude
Leadership Qualities

Source: Robert J. Gallagher, CPA
R. J. Gallagher and Associates, Inc.

AICPA MAP Products and Services

Conferences

See notices describing the 1992 Practice Management, Marketing, and Small Firm conferences in this and last month's *Practicing CPA*. Registration reminders will be published periodically.

Publications

The *Management of an Accounting Practice Handbook* consists of three loose-leaf binders containing over 1,000 pages of profitable firm management ideas. It covers topics such as compensation, operating statistics, billing, collection, professional liability, personnel, partnerships, and practice development.

MAP Selected Readings contains approximately 140 articles (cross-referenced to the *MAP Handbook*) on various aspects of firm management from leading professional publications.

To purchase the above items, contact Practitioners Publishing Company order department, tel. (800) 323-8724.

Organizational Documents: A Guide for Partnerships and Professional Corporations helps you draft your partnership agreement or corporate documents. The book contains a sample partnership agreement with more than 100 provisions, sample corporate documents, and a step-by-step approach to incorporating your practice. It also explores the benefits of a well-drafted partnership agreement, the responsibilities of the members of a professional accounting corporation, and how the CPA and attorney can work as a team to draft organizational documents.

Book, product no. 012640; ASCII, product no. 090090; WordPerfect, product no. 090091; ASCII Set, product no. 090095; WordPerfect Set, product no. 090096.

On Your Own! contains a wealth of practical information on managing a practice, checklists for starting a CPA firm, a sample business plan, examples of engagement letters, a lease checklist, a client evaluation questionnaire, and an exercise for analyzing the potential success of a public accounting partnership.

Product no. 012641.

Managing the Malpractice Maze shows the practitioner how to create and evaluate a firm's defensive practices program, identify and screen high-risk clients and engagements, and choose among insurance carriers and policies. The book also features a 10-step plan to follow when a claim is brought.

Product no. 090380.

Practice Continuation Agreements: A Practice Survival Kit explains how to protect the value and ensure the continuity of your practice with a practice continuation agreement in the event of your death or disability. It covers the steps involved, including valuing your practice,

identifying a successor, constructing the agreement, and payment methods.

Product no. 090210.

Business Management Series are booklets designed to help you help clients solve their management problems. The series includes *Management of Working Capital*, product no. 090060; *Financing Your Business*, product no. 090061; *Managing Business Risk*, product no. 090062; and *Making the Most of Marketing*, product no. 090063.

Upcoming publications

International Business is the fifth booklet in the Business Management Series.

Seasonality provides advice on how practitioners can alleviate workload compression problems.

Winning Proposals: A Guide to the Proposal Process provides the specific know-how needed to win proposals.

The Marketing Handbook compiles the advice of over 20 authorities on marketing accounting firms' services.

MAPWORKS

DOCUMAP, the first product in the MAPWORKS software series, is a two-diskette package of organizational documents and client and personnel correspondence selected from the *Management of an Accounting Practice Handbook*.

ASCII, product no. 090080; WordPerfect, product no. 090081; APG2, product no. 016911.

To purchase the above items, call the AICPA order department, (800) 334-6961; in New York State, (800) 248-0445. Ask for operator PC.

Services

Services For Local Practitioners is a brochure listing AICPA member services and the numbers to call for assistance. Tel. (212) 575-3814.

MAP Committee Survey on Professional Staff reveals firms' actions to address increased numbers of female professional staff, the nonpartnership track, staff moving into industry, staff conflicts, mentoring, and maternity/paternity leave. Tel. (212) 575-3814.

MAP Roundtable Discussion Manual contains guidelines, including sample correspondence, necessary forms, and twenty suggested discussion outlines for establishing and operating a MAP roundtable. Tel. (212) 575-6437.

Local Firm Consultation Program is an intensive, two-day review of your firm's administrative procedures in which two experienced CPA practitioners offer constructive suggestions and solutions to specific problems. Tel. (212) 575-6437.

MAP Inquiry Service provides practitioners with information, reference materials, and referral assistance in response to inquiries concerning firm management and administration. Tel. (212) 575-3814. ☑

Marketing Matters: Your Database

A good marketing plan can do wonders to enhance your visibility with clients, potential clients, and referrals. But frankly, it doesn't matter how good your ideas are if you are not reaching the right people. That is where an up-to-date, well-organized database comes in. To effectively put your marketing plan in motion, you need a database that is specific, quick, and efficient to use. Following are some suggestions.

Gathering information

The first step in creating a marketing database is to gather the necessary data. Fortunately, most of the information you need about current clients is probably in your billing database. This is not the case with potential clients and referral sources, however. So, where to begin? First, check your files and business card collection. Next, comb your correspondence file for letters thanking business acquaintances who referred clients to you.

Other contacts can be found with the help of local bar associations. Request up-to-date membership lists and look for lawyers who work in your practice area. For names of bankers, Robert Morris Associ-

ates (RMA) is always a good resource. In addition, RMA's annual reports list banks' officers and boards of directors. These names can be added to your growing list of contacts.

Use your imagination. Have you added the name of everyone who attended your last firm function or seminar, for example, or the names of people serving with you on various boards of directors? Remember, important names are as close as the business section of your daily newspaper. Once you have the names, you must then decide what information you need and how you will store it.

Storing information

When deciding what information to store, bear in mind that the more specific your categories, the more targeted your marketing program can be. So, in addition to the usual name, address, and phone number, you will probably want to include

- ☐ An identification number (perhaps the same one used for billing).
- ☐ The Standard Industrial Classification (SIC) number.
- ☐ Whether the entry is a client or potential client.
- ☐ Activities, such as whether the entry is receiving tax newsletters or attended your last seminar.

continued on next page

Large Program for Small Firm Conference

The AICPA Small Firm Conference, which focuses on providing practice management training for individual practitioners and smaller local partnerships, will be held on August 19-21 at the Chicago Marriott Downtown in Chicago, Illinois, and on November 4-6 at the Pointe on South Mountain in Phoenix, Arizona.

Participants arriving early for this year's conference will be able to take advantage of some special preconference specialization sessions that the AICPA MAP committee has organized. These include discussions on what it takes to develop new practice niches from the ground up. The presenters will explain the training, staff, and equipment requirements, the marketing strategies needed, and the fee-setting guidelines for medical practice consulting, personal financial planning, small business consulting, and divorce and bank-

ruptcy specialties, among other subjects.

The conference discussion topics include quality management for the small firm, practitioner productivity tools, avoiding malpractice litigation, managing a tax practice for fun and profit, building a satisfying partner compensation model, advice for new practitioners, balancing work and family responsibilities, executive selling skills, making a good impression, growing your firm, and the attitude of peak performers.

In addition to the presentations, practitioners can participate in training sessions on AICPA software and manuals and evening open forums on managing sole proprietorships and small partnerships.

The registration fee is \$515. (Recommended for up to 21 hours of CPE credit.) For further information, contact the AICPA practice management division, tel. (212) 575-3814.

☐ The contact (partner or staff) within your firm. In these days of "narrowcasting" and "niche marketing," such information is invaluable.

Using the information

When you have gathered enough information for your database, stored it, and backed it up (don't forget to do this and to store a copy off-site), you are ready to use it in your marketing plan.

If you have information on a topic of interest to only a few clients or prospects, you can automatically select their names from the database. PCPS members who subscribe to *PCPS Express*, for example, might receive an article on, say, S corporations. If they have set up their databases to be specific as to this type of company classification, they can easily mail the article to only selected individuals. This saves time, energy, and money. It is using your database wisely. ☒

—by **Warren E. Garling**, *Newkirk, 15 Corporate Circle, Albany, New York 12203, tel. (518) 452-1000*

Editor's note: Mr. Garling is director of CPA services at Newkirk, the approved publisher of marketing materials for the private companies practice section (PCPS) of the AICPA division for CPA firms. For more information about Newkirk products including PCPS Express, call (800) 525-4237.

World Congress of Accountants

The theme of the XIV World Congress of Accountants, which will be held on October 11–14 in Washington, D.C., is "The Accountant in a Global Economy." Besides accounting issues, the congress will address a wide variety of topics associated with globalization, such as problems and opportunities in international capital markets, international communication techniques, developments in Europe and Asia, and progress on the harmonization of international financial reporting standards.

Presentation topics include joint ventures, the accountant's role in improving business performance, business and professional ethics, information systems and their impact on auditors and the financial manager, international finance, treasury functions, internal control standards, and CPAs' legal liability.

The American Institute of CPAs is one of the hosts for the congress. For additional information, contact the XIV World Congress of Accountants/ITS, 104 Wilmont Road, P.O. Box 825, Deerfield, Illinois 60015-0825, tel. (708) 940-2100, FAX (708) 940-2386; or the AICPA meetings department, tel (212) 575-6451, FAX (212) 575-5344.

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